

FISCAL NOTE

Bill #: HB 260

Title: Establish research and
commercialization funding mechanism

Primary

Sponsor: Douglas Mood

Status: Amended Second Reading

| | | | |
|-------------------|------|-----------------------------|------|
| Sponsor signature | Date | Dave Lewis, Budget Director | Date |
|-------------------|------|-----------------------------|------|

Fiscal Summary

| | <u>FY2000</u> <u>Difference</u> | <u>FY2001</u> <u>Difference</u> |
|--|--|--|
| Expenditures: | | |
| State Special | \$1,720,659 | \$1,576,122 |
| Expendable Trust | 9,115,503 | 8,603,806 |
| Revenue: | | |
| General Fund | \$(648,693) | \$(1,242,940) |
| State Special Revenue | 1,445,752 | 1,307,426 |
| Debt Service | (38,085) | (38,254) |
| Capital Projects | (208,078) | (208,705) |
| Expendable Trust | 9,115,503 | 8,603,806 |
| Trust Fund | (10,375,722) | (9,845,864) |
| Net Impact on General Fund Balance: | \$(648,693) | \$(1,242,940) |

| | | | | | |
|-------------------|------------------|----------------------------------|-------------------|------------------|-------------------------------|
| <u>Yes</u> | <u>No</u> | | <u>Yes</u> | <u>No</u> | |
| X | | Significant Local Gov. Impact | | X | Technical Concerns |
| X | | Included in the Executive Budget | X | | Significant Long-Term Impacts |

Fiscal Analysis

ASSUMPTIONS:

1. This act is effective July 1,1999.
2. House Bill 260 replaces the Jobs and Incomes package included in the Governor's budget which cost nearly \$20 million general fund. The legislature has already tentatively funded two parts of the Governor's proposal in HB2 totaling approximately \$6.3 million. This would leave the remainder of the proposal, approximately \$14 million, to be funded from the general fund in HB260. The cost to the general fund of HB260, in its current amended form, would be \$1.8 million in lost revenues. The net savings to the general fund of enacting HB260 instead of the remainder of the proposal in the original budget would be nearly \$12 million for the next biennium.

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3. Under current law coal severance tax collections are estimated to be \$33,266,000 in fiscal 2000 and \$31,546,000 in fiscal 2001.
4. The rate of return for funds in the coal tax trust is estimated to be 7.24% in fiscal 2000 and 7.27% in fiscal 2002.
5. The credits against the coal severance tax will reduce the growth in the balance of the permanent trust fund and treasure state endowment fund, which will reduce the average balance available for investment in each.
6. Because the distribution of the coal severance tax bond fund is changed so that the treasure state endowment fund receives 100% of the residual bond revenues and the permanent coal trust fund receives none, the ending balance for the coal trust permanent fund in fiscal 1999 is the balance that will remain in the permanent fund for fiscal years after fiscal 1999.
7. The combined effects assumptions 4 and 5 will act to reduce interest earnings to the general fund by \$323,937 in fiscal 2000 and \$910,272 in fiscal 2001.
8. The Coal Producers License Tax in Section 7 of HB260, as amended, is expected to raise \$20.4 million in revenue each fiscal year. Section 8(1) allocates \$1.8 million each year to the Treasure State Endowment Account and remaining revenues of \$18.6 million are allocated as follows:

| | Percentage | Yearly Allocation |
|----------------------------------|----------------|----------------------|
| Research & Commercialization | 49.00% | \$ 9,115,503 |
| Long Range Building Program | 12.24% | \$ 2,277,015 |
| Coal Tax Shared Revenue | 8.53% | \$ 1,586,842 |
| Parks Trust | 1.30% | \$ 241,840 |
| Renewable Resource Debt Service | 0.97% | \$ 180,450 |
| Long Range Building Debt Service | 1.33% | \$ 247,421 |
| General Fund | 26.63% | \$ 4,953,997 |
| | <u>100.00%</u> | <u>\$ 18,603,067</u> |

9. HB260, as amended, establishes a Board of Research and Commercialization Technology, creates an Executive Director position, and two Program Specialists positions. It is assumed the Executive Director position would be classified as a grade 18 position at an estimated cost of \$43,713 each year, while the two Program Specialists would be classified as grade 16 positions at an estimated cost of \$74,132 each year. Board member Per Diem is estimated at $((\$100 \text{ per day} * 6 \text{ members}) * 16 \text{ meeting days}) = \$9,600$ each year. Total personal services expenditures would equal \$127,445 each year.
10. Operating expenses are estimated to be \$93,250 in FY00 and \$83,250 in FY01. Research and Commercialization loans and grants are estimated to total approximately \$8.9 million each year.
11. An additional \$1.72 million would be available for infrastructure grants and loans through the Treasure State Endowment Program (TSEP). It is estimated that an additional six projects would be funded annually with existing staff and program resources.

| <u>FISCAL IMPACT:</u> | <u>FY2000</u> <u>Difference</u> | <u>FY2001</u> <u>Difference</u> |
|--|------------------------------------|------------------------------------|
| <u>FTE</u> | 3.00 | 3.00 |
| <u>Expenditures:</u> | | |
| Personal Services | \$127,445 | \$127,445 |
| Operating Expenses | \$93,250 | \$83,250 |
| Loans/Grants | <u>\$10,615,467</u> | <u>\$9,969,233</u> |
| Total | \$10,836,162 | \$10,179,928 |
| <u>Funding:</u> | | |
| State Special Revenue (02) | \$1,720,659 | \$1,576,122 |
| Expendable Trust (08) | <u>\$9,115,503</u> | <u>\$8,603,806</u> |
| TOTAL | \$10,836,162 | \$10,179,928 |
| <u>Revenues:</u> | | |
| General Fund (01) | (\$648,693) | (\$1,242,940) |
| State Special – Treasure St Endow (02) | 1,720,659 | 1,576,122 |
| State Special – Share Revenue (02) | (144,440) | (144,906) |
| State Special – Cult & Aesth Proj (02) | (130,467) | (123,790) |
| Debt Service – Water Development (04) | (16,287) | (16,347) |
| Debt Service – LRBP (04) | (21,798) | (21,907) |
| Capital Projects – LRBP (05) | (208,078) | (208,705) |
| Expendable Trust – Res & Com (08) | 9,115,503 | 8,603,806 |
| Trust Fund – Permanent Trust (09) | (8,316,500) | (7,886,500) |
| Trust Fund – Cultural Trust (09) | (21,166) | (21,280) |
| Trust Fund – Treasure St Endow (09) | <u>(2,038,056)</u> | <u>(1,938,084)</u> |
| Total | (\$709,323) | (\$1,424,531) |
| <u>Net Impact to Fund Balance (Revenue minus Expenditure):</u> | | |
| General Fund (01) | (\$648,693) | (\$1,242,940) |
| State Special Revenue (02) | (274,907) | (268,696) |
| Debt Service (04) | (38,085) | (38,254) |
| Capital Projects (05) | (208,078) | (208,705) |
| Expendable Trust (08) | 0 | 0 |
| Trust Fund (09) | <u>(10,375,722)</u> | <u>(9,845,864)</u> |
| Total | (\$11,542,485) | (\$11,604,459) |

LONG RANGE IMPACTS

1. Interest earnings on the coal tax permanent fund will not grow, as no additional deposits will be made until Fiscal Year 2024. These interest earnings are deposited to the general fund.
2. HB260 would increase the total amount of the Permanent Treasure State Endowment Fund by \$22,800,000 when the flow of funds from the Coal Tax Bond Fund ends in the year 2023.

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3. HB260 would increase the amount of funds available in interest earnings each fiscal year by \$1,710,000 when the Treasure State Endowment Fund is fully funded in 2023 and each year thereafter.
4. HB260 would increase the amount of funds available for 16 of the 24 years until the flow of funds from the Coal Tax Bond Fund ends in the year 2023, that would be available to fund Treasure State Endowment Program local government infrastructure projects.
5. HB260 would decrease the amount of funds available for 8 of the 24 years until the flow of funds from the Coal Tax Bond Fund ends in the year 2023, that would be available to fund Treasure State Endowment Program local government infrastructure projects.
6. The decrease in the amount of funds available for the 8 of the 24 years would take place in 2008 through 2015, and the amount of funds that would be available to fund Treasure State Endowment Program local government infrastructure projects would range from \$10,890,000 to \$14,145,000 during those years.
7. HB260 would increase the total amount of funds that would be available by \$17,325,000 through the year 2023, that would be available to fund Treasure State Endowment Program local government infrastructure projects. Under HB260, as amended, \$1.8 million would be received and appropriated in the Treasure State Endowment State Special Revenue Account at the beginning of each fiscal year. Approximately six additional projects would be able to receive a notice at the beginning of each fiscal year that Treasure State Endowment Program funds are available for projects as compared to waiting until sufficient interest earnings from the Treasure State Endowment Fund are received in the Treasure State Endowment Special Revenue Account to fund projects.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Interest earned on the Treasure State Endowment Fund is used to finance local government infrastructure projects through the Montana Department of Commerce and the Department of Environmental Quality. Reduced deposits to the Fund will reduce interest in future years which is offset by the direct allocation of \$1.8 million per year to the Treasure State Endowment special revenue account and extension of the term of deposits to the Fund for 10 additional years.